

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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March 6, 2008

Ms. Terri King, Executive Director
Kings County Association of Governments
339 W. "D" Street, Suite B
Lemoore, CA 93245

Re: Audit of Indirect Cost Allocation Plan for FY 2008
File No: P1190-0649

Dear Ms. King:

We have audited the Kings County Association of Governments (KCAG) Indirect Cost Allocation Plan (ICAP) for the fiscal year ending June 30, 2008 to determine whether the ICAP is presented in accordance with Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's Local Programs Procedures (LPP) 04-10. KCAG's management is responsible for the fair presentation of the ICAP. KCAG proposed an indirect cost rate of 38.85% of total direct salaries and wages plus fringe benefits for fiscal year 2008.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the Government Auditing Standards issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of KCAG. Therefore, we did not audit and are not expressing an opinion on the KCAG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by KCAG, as well as evaluating the overall presentation.

The accompanying ICAP was prepared on a basis of accounting practices prescribed in the OMB Circular A-87 and the Department of Transportation's (Department) LPP 04-10, and is not intended to present the results of operations of KCAG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a comparison of the ICAP to the audited financial statement report for the fiscal year ended June 30, 2006, and inquiries of personnel. The audit also included tests of individual accounts to the general ledger and supporting

documentation to assess allowability, allocability and reasonableness of costs based on a risk assessment and an assessment of the internal control system as related to the ICAP as of July 12, 2007. Financial management system changes subsequent to this date were not tested and, accordingly, our conclusion does not pertain to changes arising after this date. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our findings and recommendations take into consideration KCAG's response dated October 31, 2007 to our August 30, 2007 draft findings. Our findings and recommendations, KCAG's response and our analysis of the response are detailed below.

AUDIT RESULTS

Based on audit work performed, KCAG's ICAP for the fiscal year ended June 30, 2008 is presented in accordance with OMB Circular A-87 and LPP 04-10. The approved indirect cost rate is 38.85% of total direct salaries and wages, plus fringe benefits for the fiscal year ended June 30, 2008. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

Audit Findings

Finding 1

KCAG does not maintain a detailed policy and procedure manual, specific to KCAG. Although KCAG utilizes the County of Kings policies and procedures, where applicable, a separate and distinct policy and procedure manual for KCAG is needed to ensure adequate internal controls, particularly as related to labor charges. We found that project time cards, including that of the Executive Director, were not signed by an approving authority. We also found that indirect labor costs were billed directly and unallowable costs were included within the indirect cost pool. (See Finding 2 and 3, respectively.)

Written policies and procedures provide staff instructions to perform their jobs efficiently, consistently and accurately. Adequate policies and procedures can minimize the possibility of accounting errors, inconsistencies, payment and billing of unallowable or ineligible costs, late or non-payments to vendors and erroneous general ledger entries. Without an adequate, up to date policy and procedure manual, the likelihood of misstatements, errors and even fraud, are increased.

CFR 49 Part 18.20 (b) (3) Standards for financial management system states that effective control and accountability must be maintained for all grant and subgrant cash, real and personal property and other assets. Grantees and subgrantees must adequately safeguard all

such property and must assure that it is used solely for authorized purposes.

Recommendation

We recommend KCAG establish written policy and procedures which include details for all aspects of accounting, including, but not limited to the following:

- Charging practices - Procedures for properly identifying and accounting for all costs, direct, indirect, and unallowable in accordance with OMB Circular A-87.
- Timekeeping - Timekeeping/reporting procedures and policies for all employees. The procedures should require proper identification of program and non-program hours and the signature of both employees and supervisors. An employee should not approve their own timesheet.
- Travel - Procedures to ensure that all reimbursed employee travel is reasonable, necessary, documented, supported and authorized by designated personnel prior to incurring the expense. Those travel costs billed to the state should not exceed Department of Personnel Administration authorized rates.
- Billing to local, state and federal agencies-- Procedures for seeking reimbursement of program costs from the Department, or other local and federal agencies. The policy and procedures should limit reimbursement to allowable direct and indirect program costs. Reimbursement should be sought for only those costs incurred and paid at the time of billing. All costs included within billings must be adequately supported by source documents, cancelled checks and the general ledger.

KCAG's Response

KCAG will develop a Policy and Procedure Manual for accounting activities. Time cards have already been revised to include a supervisor's or attesting signature. Procedures will be written to include preparation of quarterly reports and reimbursement requests from regional, state and federal agencies that are limited to allowable direct and indirect program costs, and authorized rates. All future billings will now be supported by source documents.

Analysis of Response

No additional analysis required.

Finding 2

Through our testing of fiscal year 2007 labor costs, we found that KCAG direct billed certain costs to work element 501.01 which were of an indirect nature and should be included in the indirect cost pool and billed through the indirect rate. Specifically, the following types of costs were direct billed:

- Non-productive time (leave hours)
- Secretary's hours, both productive and non-productive
- Administrative or indirect time of all employees
- Compensating (comp) time hours worked, but not paid

Direct billing of these costs results in an inequitable distribution of fringe and overhead costs, which may understate the overall cost of various projects.

OMB Circular A-87, Attachment A, items E and F state, in part, that direct costs are those costs that can be identified specifically with a particular final cost objective and indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective and (b) not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. Additionally, Attachment B, 8.d states, that fringe benefits are allowances and services provided by employers to employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans.

Recommendation

We recommend KCAG prepare revised Requests for Reimbursements (RFRs) for the fiscal year ended June 30, 2007. The revised RFRs should reduce direct project costs by the direct billed indirect and fringe benefit costs. These costs should be re-distributed to projects based upon a fully loaded fringe benefit rate and the approved overhead rate.

KCAG should ensure that all future billings to the Department do not include indirect costs billed as direct costs. KCAG should review all fiscal year 2008 billings to the Department to ensure that indirect costs were not billed as direct. Any identified inappropriate billings should be reimbursed to the Department.

In addition, we recommend KCAG discontinue use of an administrative work element. All indirect costs charged to this work element should be included within the indirect cost pool and recovered through the approved overhead rate. The direct labor base must be reduced by the total indirect labor costs included within the direct labor base.

KCAG's Response

KCAG deducted all non-productive hours, all the Secretary's hours, administrative time of employees, and compensating hours worked; redistributed costs to projects based upon a fully loaded fringe benefit rate and the approved overhead rate; and submitted a final RFR for FY 06-07 with the adjustment.

Analysis of Response

No additional analysis required.

Finding 3

KCAG pays membership fees to an organization which performs lobbying activities. We found membership fees totaling \$2,731 included within the audited indirect costs for the fiscal year ended June 30, 2006. Such costs are unallowable per OMB Circular A-87, Attachment B 24, which states that the cost of influencing activities is unallowable.

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Upon our request, KCAG removed the unallowable lobbying costs from the 2006 indirect cost pool. The 2006 carryforward and 2008 proposed rate were adjusted accordingly.

Recommendation

We recommend KCAG establish procedures to ensure accurate identification and segregation of unallowable indirect lobbying costs.

KCAG's Response

KCAG will ensure that unallowable indirect lobbying costs are charged to local funds and will be included in the Policy and Procedure Manual.

Analysis of Response

No additional analysis required.

This report is intended solely for the information of KCAG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Allocation Plans for your files. Copies were sent to the Department's District 10, the Department's Division of Accounting and the FHWA. If you have any questions, please call Teresa Muñoz at (916) 323-7922.


Teresa Muñoz
Auditor

Approved:


MARYANN CAMPBELL-SMITH
Chief, External Audits

Attachments

c: DLAE, District 6
Brenda Bryant, FHWA
Gary Buckhammer, DOA
Andrew Knapp, HQ
File Copy P1190-0649

**Kings County Association of Governments
FY 2007-08 Indirect Cost Allocation Plan**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the Kings County Association of Governments and approved by Caltrans.

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>Rate*</u>	<u>Applicable To</u>
Fixed with carry forward	7/01/07 to 6/30/08	38.85%	All Programs

* Base: Total Direct Salaries and Wages plus Fringe Benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted; such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) This rate is based on an estimate of the costs to be incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determined - either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audit financial statements - any differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency. The approval will also be used by Caltrans in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate of Calculation:

FY 2007-08 Budgeted Indirect Costs	\$ 154,957
Carry Forward from FY 2005-06	\$ <u>(7,466)</u>
Estimated FY 2007-08 Indirect Costs	\$ 147,491
FY 2007-08 Budgeted Direct Salaries and Wages plus Fringe Benefits	\$ 379,643
FY 2007-08 Indirect Cost Rate	38.85%

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2008 (July 1, 2007 to June 30, 2008) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Kings County Association of Governments

Signature: Terri King

Reviewed, Approved and Submitted by:

Name of Official: Terri King

Title: Executive Director

Date of Execution: 7-12-07

Signature: Terri King

Prepared by:

Name of Official: Terri King

Title: Executive Director

Date of Execution: 7-12-07

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Signature: Mary Ann Campbell-Smith

Reviewed and Approved by:

Mary Ann Campbell-Smith

Title: Chief

Date: March 6, 2008

Phone Number: 916 323 7105

Signature: Terresa Muñoz

Reviewed and Approved by:

Terresa Muñoz

Title: Auditor

Date: March 6, 2008

Phone Number: 916 323 7922

Attachment 1

Kings County Association of Governments
2007-08 Budget

Revenues	07-08 Budget	Expenses	07-08 Budget
FHWA PL	\$499,800	Salaries & Benefits	
FHWA SP&R	\$0	Salaries	\$267,475
FTA 5303	\$53,100	OASDI	\$20,480
FTA 5307	\$0	Retirement	\$43,370
FTA 5305	\$102,000	Health Insurance	\$44,348
SJV Regional Blueprint Grant	\$185,300	Unemployment Insurance	\$480
SJVUAPCD Grant	\$9,400	Workers' Compensation	\$1,625
STIP Planning	\$54,100	Management Benefits	\$1,885
TDA Planning	\$47,000	Subtotal Salaries & Benefits	\$379,843
Match FTA 5305	\$13,000		
AVA	\$20,000	Indirect Costs	
Local	\$49,700	Communications	\$1,500
Total Revenues	\$1,033,400	Maintenance - Equipment	\$100
		Janitorial Services	\$5,600
		Rent Office Space	\$25,200
		Memberships	\$0
		Legal Expenses	\$2,500
		Office Expenses	\$10,500
		Computer Software Expenses	\$600
		Books and Periodicals	\$300
		Postage and Freight	\$4,800
		Offset Printing/Stores	\$500
		Auditing and Accounting	\$0
		Consultant Expenses	\$0
		Info Tech Services	\$7,500
		Publications/Legal Notices	\$2,000
		Rents & Leases - Copier	\$1,500
		Cost Allocation Plan Charges	\$11,300
		Special Dept. Expense	\$0
		In-Service Training	\$3,000
		Motor Pool Services	\$2,800
		Travel and Expenses	\$3,500
		Utilities	\$4,000
		Indirect Salaries and Benefits	\$67,757
		Subtotal Indirect Costs	\$154,957
		Other Direct Costs	
		Computer Software (TP+)	\$1,900
		Traffic Model Support	\$80,000
		GIS Support	\$10,000
		SJV Blueprint	\$122,400
		RTP EIR	\$100,000
		TDA Financial Audit	\$5,000
		AVA Audits	\$14,000
		Public Participation	\$30,000
		Vanpool Study	\$115,000
		Valley Coordination Participation	\$7,000
		Legal Expenses	\$2,500
		Memberships	\$3,500
		Communications	\$500
		Travel and Expenses	\$3,500
		Office Expense	\$3,500
		Subtotal Other Direct Costs	\$498,800
		Total Expenses	\$1,033,400

Attachment 2

Kings County Association of Governments Carry Forward Calculation

	FY 04/05	FY 05/06	FY 06/07		FY 07/08
Approved Rate	46.64%	28.13%	43.23%	Approved Rate	38.85%
Indirect Carry Forward					
Carry Forward	\$ -	\$ -	\$ (27,884)	Prior Year Carry Forward	\$ (7,466)
Indirect Costs Per Single Audit	<u>\$ 53,289</u>	<u>\$ 49,173</u>		Estimated Indirect Costs	<u>\$ 154,957</u>
Total Indirect Costs	\$ 53,289	\$ 49,173		(From FY 06/07 Budget)	
Recovered Costs				Total Estimated Indirect Costs	\$ 147,491
Direct Salaries & Wages + Fringe Benefits	\$ 174,416	\$ 201,348		Estimated Direct Salaries & Wages +	\$ 379,643
(* Approved Rate)	46.64%	28.13%	43.23%	Fringe Benefits	
Total Recovered Indirect Costs	<u>\$81,173</u>	<u>\$56,639</u>			
Indirect Carry Forward	\$ (27,884)	\$ (7,466)			
Direct Salaries + Benefits	\$ 174,416	\$ 201,348			
(Per Single Audit)					